

## Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07  
FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02  
OPIC-03 SP-02 LAB-04 EPG-02 SIL-01 OMB-01 IGA-02  
DODE-00 PM-04 H-01 L-03 NSC-05 PA-01 PRS-01  
SS-15 INT-05 /103 W  
-----141722Z 130327 /42

R 140729Z MAY 77  
FM AMEMBASSY NEW DEHI  
TO SECSTATE WASHDC 3406  
INFO AMEMBASSY MOSCOW

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EO 11652: NA  
TAGS: EIND, IN, UR  
SUBJ: SOVIET AID TO INDIA

REF: A. NEW DELHI 6200, B. NEW DELHI 6115

1. CONTRARY TO SEVERAL REPORTS IN THE INDIAN PRESS AS WELL AS IN THE APRIL 30 LONDON ECONOMIST ARTICLE ON THE GROMYKO VISIT, THE INDIAN GOVERNMENT HAS NOT CANCELED SOVIET AID TO THE PROPOSED EXPANSION PROGRAMS OF THE BHILAI AND BOKARO STEEL MILLS. THE REPORT IS A MISUNDERSTANDING OF ONE KERNAL OF FACT: ONLY THE COLD ROLLING MILL FOR THE BOKARO EXPANSION (ABOUT TEN PERCENT OF THE TOTAL PROJECT) WILL BE HANDLED BY INDIAN DESIGNING AND ENGINEERING FIRMS (MECON AND EPI) USING LOCALLY MANUFACTURED EQUIPMENT, RATHER THAN BY SOVIET TECHNICAL CONSULTANTS USING EQUIPMENT IMPORTS. NO OTHER CHANGE IN SOVIET ROLE IN BHILAI AND BOKARO HAS OCCURRED, ALTHOUGH GOI IS DETERMINED TO CONTINUE TO SEEK WAYS OF MAXIMIZING THE USE OF DOMESTIC RESOURCES.

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2. GOI OFFICIALS INSIST THAT THE SOLE REASON FOR THE DECISION WAS ECONOMIC. THEY ARGUE THAT THEIR DOMESTIC PRODUCERS NEEDED THE EXPERIENCE OF WORKING ON THE COLD ROLLING MILL AT THIS TIME IN ORDER TO COMPETE AS SUPPLIERS OF STEEL PLANT TECHNOLOGY ON THE INTERNATIONAL MARKET. SECONDLY, DOMESTIC MANUFACTURE OF STEEL EQUIPMENT WAS SUFFICIENT TO MEET THIS REQUIREMENT. SOVIET DESIGNS

AND DRAWINGS ALREADY PROVIDED UNDER AN AID UMBRELLA WILL BE "PURCHASED" FOR \$15 MILLION OR PERHAPS MORE.

3. FOREIGN SECRETARY MEHTA INFORMED THE CHARGE, HOWEVER, THAT THE GOI HAD ALREADY INITIALED AN AGREEMENT WITH THE SOVIETS UNDER WHICH THE COLD ROLLING MILL WOULD HAVE BEEN DONE BY THE SOVIETS. ACCORDING TO MEHTA, A CHANGE WAS MADE DURING THE GROMYKO VISIT BEFORE SIGNING, A CHANGE WHICH REQUIRED TWO EVENINGS OF EFFORT ON THE FOREIGN SECRETARY'S PART. THE SOVIETS HAD BEEN SURPRISED BUT NOT UNHAPPY.

4. EMBASSY CONTINUES TO DOUBT THE VALIDITY OF THE ANNOUNCED PURPOSE OF THE NEW RUBLE CREDIT AGREEMENT SIGNED BY GROMYKO. WE HAVE NO EVIDENCE OF ANY NEW PROJECTS IN STEEL AND COAL SECTORS WHICH SUCH A CREDIT MIGHT BE USED FOR. ON THE CONTRARY, SENIOR OFFICIAL OF STEEL AUTHORITY OF INDIA (SAIL) TOLD EMBOFF THAT HE WAS UNFAMILIAR WITH TERMS OR CONDITIONS OF CREDIT AND THOUGHT IT WAS BASICALLY A CONTINUATION OF PREVIOUS AGREEMENTS.

5. THE LONGTERM DRIFT AWAY FROM TECHNOLOGICAL DEPENDENCE ON THE SOVIET UNION EXEMPLIFIED BY COLD ROLLING MILL DECISION MAY ALSO BE ACCOMPANIED BY MORE EXPLICIT TURNING TO THE WEST--ESPECIALLY THE UNITED STATES. A SUBSIDIARY OF US STEEL IS BEING CONSIDERED FOR MAJOR RENOVATION WORK AT BHILAI AND THREE OTHER STEEL PLANTS. ONE SAIL OFFICIAL, IN AN INFORMAL CONVERSATION, CONFIRMED THAT A PRESS REPORT THAT INDIAN COMPANIES NOW GIVEN RESPON-  
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SIBILITY FOR BOKARO COLD ROLLING MILL HAVE A COLLABORATION AGREEMENT WITH A US COMPANY (WE ARE UNABLE TO CONFIRM ITS IDENTIFY AT THIS POINT) WHICH WILL BE DRAWN UPON FOR THIS PROJECT. ANOTHER OFFICIAL RAISED POSSIBILITY THAT SAIL MIGHT REVERT TO IMPORTS FOR COLD ROLLING MILL IF NEEDED, AND THESE WOULD BE "FREE" I.E. FROM WESTERN SOURCES.

6. COMMENT: (A) WE ACCEPT GOI POSITION THAT ITS BOKARO DECISION WAS TAKEN FOR PRAGMATIC ECONOMIC REASONS AND WAS NOT INTENDED AS A SIGNAL OF A POLICY SHIFT IN TERMS OF THE OVERALL BILATERAL RELATIONSHIP. IT IS NONETHELESS SYMPTOMATIC OF THE TREND, IDENTIFIED BY THIS EMBASSY IN PREVIOUS MESSAGES, AWAY FROM THE USE OF SOVIET TECHNOLOGY AND TOWARDS A GREATER RECOGNITION OF THE NEED FOR SUPERIOR US AND WESTERN TECHNOLOGY.

(B) RECENT AID AGREEMENT HAS YET TO SHOW ANY SUBSTANCE BELOW THE SURFACE. IN THE ABSENCE OF EVIDENCE TO THE

CONTRARY, OUR TENTATIVE CONCLUSIONS CONTINUE TO BE THAT AGREEMENT SERVED TO ROLL OVER UNDISBURSED CREDITS INTO SOFTER REPAYMENT TERMS AND THAT AGREEMENT WILL SERVE AS ONE PIECE IN THE SOLUTION OF THE RUPEE-RUBLE EXCHANGE RATE DISPUTE.

(C) BOTH THE ACCEPTANCE OF THE STEEL MILL DECISION AND, ON GRANDER SCALE, REVISION OF CREDIT ARRANGEMENTS ARE EXPRESSIONS OF SOVIET GOVERNMENT WILLINGNESS TO ACCOMMODATE INDIAN GOVERNMENT NEEDS. THEIR INCLUSION IN GROMYKO'S VISIT UNDERSCORED THE SOVIET GOVERNMENT'S DESIRE TO MAINTAIN A CONTINUITY IN THEIR BILATERAL RELATIONSHIP.  
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## Message Attributes

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